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97TH CONGRESS, 2d Session } SENATE { REPORT No. 97-438

PROVIDING FOR ADJUSTING THE RATE OF INTEREST PAID ON FUNDS OF THE SMITHSONIAN INSTITUTION DEPOSITED WITH THE TREASURY OF THE UNITED STATES AS A PERMANENT LOAN

MAY 26 (legislative day, MAY 25), 1982.—Ordered to be printed

Mr. MATHIAS, from the Committee on Rules and Administration, submitted the following

REPORT

[To accompany H.R. 6132]

The Committee on Rules and Administration, to which was referred the bill (H.R. 6132) to amend section 5590 of the Revised Statutes to provide for adjusting the rate of interest paid on funds of the Smithsonian Institution deposited with the Treasury of the United States as a permanent loan, having considered the same, reports favorably thereon without amendment, in lieu of S. 2391, and recommends that the bill do pass.

PURPOSE

The bill would amend section 5590 of the Revised Statutes of the United States (20 U.S.C. 54) to provide for adjusting the rate of interest paid on certain Smithsonian Institution funds deposited with the United States Treasury as a permanent loan from a fixed yield of 6 percent to a variable yield based on market interest rates.

HISTORY

The Smithsonian Institution has on permanent loan at the Treasury of the United States $1 million which represents the original bequest of James Smithson and additions made to it in the 19th century. The Act of October 10, 1846, which established the Smithsonian Institution, provided for the payment of interest at a rate of 6 percent per year on these funds. The legislative history of the original act accepting the Smithson funds as a trust would indicate that the Congress meant for this rate of interest to be preferential to the prevailing market interest rate. In the intervening 136 years, this interest rate was rarely below the market interest rate, and was often above it. Inflation and high rates of interest have created a situation, however, in which

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this statutory rate is substantially below current market rates on outstanding obligations of the United States.

Currently, large funds on deposit with the Treasury such as the Railroad Retirement Fund and the permanent fund of the United States Soldiers' and Airmen's Home receive interest payments at prevailing market rates of interest. In recent years, the Congress has been moving to standardize the interest rate procedure on trust funds similar to the Smithson bequest. During the 94th Congress, funds of the Library of Congress and the National Gallery of Art on deposit with the Treasury of the United States were freed from fixed interest rates and allowed to receive prevailing market interest rates. At the same time as this bill was approved by the Committee on Rules and Administration, the committee also approved a similar, original bill with regard to the Oliver Wendell Holmes Devise, a trust fund of the Library of Congress.

Committee Action

On April 20, 1982, the Committee on Rules and Administration held hearings on S. 2391, the companion bill to H.R. 6132. Also, correspondence between the Department of the Treasury and the Smithsonian Institution and between the Department of the Treasury and the Committee on House Administration of the House of Representatives was reviewed, and committee staff members met with representatives of the Department of the Treasury, the Smithsonian Institution, and the Committee on House Administration. The correspondence is reprinted at the end of this report. H.R. 6132 as passed by the House of Representatives and as reported by the Committee on Rules and Administration incorporates amendments made by the House Committee on House Administration which express more clearly the intent of the legislation than the bills (H.R. 6132 and S. 2391) as introduced.

Committee Findings

The intent of the Congress when it accepted the Smithson bequest was to provide the Smithsonian Institution with a fair rate of interest on the money. Six percent per annum, the rate established by statute, was a generous rate of return in 1846. In today's market, six percent is well under the interest rate of comparable investments. This bill will allow the Smithsonian to receive a fair return on this deposit with the Treasury.

Under the bill, the Smithsonian Institution could make use of the Treasury's market-based special obligation investment procedure. The market-based special obligation is a special nonmarketable Treasury issue which is identical (except for transferability) to any marketable Treasury issue. The special security is issued at the mean of the New York Federal Reserve Bank's composite of quoted bid and ask prices, at noon on the day the account pays for the security. Thus, the investing fund is assured of obtaining a market interest rate on its investment without actually entering the market. At present, according to the Treasury, over 80 percent of the Government accounts for which Treasury provides investment services are invested in market-based special obligations.

The differences between H.R. 6132 as passed by the House of Representatives and as reported by the Committee on Rules and Administration and S. 2391 as introduced are mainly technical in nature. The phrase "payable in half-yearly payments, on the first of January and July in each year" was struck at the request of the Smithsonian since

it would impose an unintended requirement to select maturities with interest payable in January and July. This deletion will provide investment flexibility. The phrase "taking into consideration the current average market yield" was replaced by the phrase "based upon current market yields" for two purposes. One was to ensure that the Secretary of the Treasury could not simply "take into account" the current yields and then determine for the Smithsonian a substantially lower yield. The second was to ensure that older, low interest rate securities would not be included in the determination of the rate. The Treasury has advised the Committee on Rules and Administration that none of these changes would affect its current procedures, except for the deletion of the January and July payment provision, a deletion which the Treasury favors. This procedure is described in the document printed at the end of this report headed, "Brief Description of the Market-Based Special Investment Procedure of the Department of the Treasury."

The committee is aware that the bill leaves in an ambiguous state the interest which will be earned during the period July 1, 1982, through September 30, 1982, when on the effective date of October 1, 1982, the provisions in the present law which specify payment of interest on the first of January and July of each year are repealed. It is the intent of the committee that the interest which will have accrued to the Smithsonian during this period be credited to the Smithsonian on October 1, 1982, and be available for the maintenance and support of the Smithsonian Institution.

Cost Estimate

The cost estimate prepared by the Congressional Budget Office pursuant to Section 403 of the Congressional Budget Act of 1974, is as follows:

U.S. Congress,
Congressional Budget Office,
Washington, D.C., May 24, 1982.

Hon. Charles McC. Mathias, Jr.
Chairman, Committee on Rules and Administration,
U.S. Senate, Washington, D.C.

Dear Mr. Chairman: Pursuant to Section 403 of the Congressional Budget Act of 1974, the Congressional Budget Office has reviewed H.R. 6132, a bill to adjust the rate of interest paid on funds of the Smithsonian Institution deposited with the Treasury as a permanent loan, as ordered reported by the Senate Committee on Rules and Administration, on May 21, 1982.

This bill adjusts the rate of interest paid to the Smithsonian Institution for its one million dollar deposit at the Treasury. The Act establishing the Smithsonian Institution specified an interest rate of 6 percent per annum on the Smithsonian's funds. The interest rate authorized in this bill is based on "current market yields on outstanding marketable obligations of the United States of comparable maturities. . . . Under this bill, the adjusted interest rate would increase payments to the Smithsonian Institution from the Treasury by about $60,000 to $80,000 annually.

Sincerely,

Raymond C. Scheppach
(*For Alice M. Rivlin, Director*).

Regulatory Impact Statement

Pursuant to paragraph 11(b) of rule XXVI of the Standing Rules of the Senate, the committee does not consider that enactment of H.R. 6132 would have any regulatory impact.

Letters From the Department of the Treasury

Letters addressed to Mr. Peter G. Powers, general counsel, the Smithsonian Institution, and to the Honorable Augustus F. Hawkins, chairman of the Committee on House Administration, from Mr. Mark Stalnecker, deputy assistant secretary (Federal Finance), Department of the Treasury, are as follows:

Department of the Treasury,
Washington, D.C., February 26, 1982.

Mr. Peter G. Powers,
General Counsel, Smithsonian Institution,
Washington, D.C.

Dear Mr. Powers: Following up on our recent meeting regarding investment of Smithsonian Institution monies, the language recommended by the Treasury—public debt securities with maturities suitable to the needs of the fund—provides maximum flexibility with respect to maturity selection. For example, the fund could be invested in 6-month Treasury bills and thus rolled over every six months, or in 30-year Treasury bonds and thus rolled over every 30 years, or in any number of intermediate maturities. We would be happy to consider your request with regard to maturity selection.

Our major objective is to assure that the fund receives a rate of return that is approximately equal to the rate paid by the Treasury on its marketable borrowings of comparable maturities. Thus, if the fund were invested in 6-month Treasury bills the investment could be rolled over every six months at the average interest rate actually paid by the Treasury in the most recent regular weekly auction of 6-month bills. If the fund were invested in 30-year bonds (which currently are issued by the Treasury once each quarter), the current estimated 30-year rate would be determined at the time of investment on the basis of average market yields on outstanding Treasury bonds with approximately 30 years remaining to maturity; such average market yields reflect actual daily trading in the secondary market for Treasury securities and thus are a reasonable approximation of the rate the Treasury would pay on a new issue of 30-year bonds. The "yields-on-comparable-maturities" approach is currently used by the Treasury for most Federal agency borrowing, lending, and investment activities, and it has been endorsed by OMB and GAO as the most equitable and effective way of approximating Treasury's current costs of borrowing in the market for comparable periods. In this way, the Treasury neither makes money nor loses money, and the fund being invested is in essentially the same position as other purchasers of Treasury securities.

The major problem with the procedure currently used for the National Gallery fund is that the fund is reinvested every month but not at the 1-month rate. Instead, because of the statutory requirement to consider "the current average market yield on outstanding long-term marketable obligations of the United States", the fund is reinvested at a rate which is an average of current market yields

on 15-year bonds. Thus a long-term interest rate is applied to short-term investments which are rolled over every month. Consequently, in 1981, when short-term market rates were higher than long-term rates, the National Gallery earned significantly less than other investors in short-term Treasury securities.

Consequently, we believe that the current procedure for determining the interest yield for the National Gallery fund should be changed to conform to the "yields-on-comparable-maturities" approach discussed above. This could be accomplished under existing legislation by investing in, say, 15-year obligations at the current 15-year rate and rolling over every 15 years. If, however, it is determined that the rate should be recalculated, say, every 6 months then the 6-month rate should be used, and a legislative change would be necessary to eliminate the current statutory requirement to consider yields on "long-term" obligations. We would welcome your suggestions on the choice of maturities suitable to the needs of the fund.

I would like to emphasize that our objective is to achieve equity between the beneficiaries of these funds and the general taxpayer. While the funds in this case are relatively small we are attempting to apply this sound principle across the board for all Government funds, which involve many billions of dollars. Thus we are particularly concerned with avoiding any undesirable precedents in this case.

We would like to resolve this issue promptly, prior to Congressional action on the proposed Smithsonian fund legislation, so there will be a clear understanding with the Congress as to the administration of the funds. After we have received your recommendations as to suitable maturities, we will be happy to work with you on any necessary changes in the legislative language.

Please let us know if you have any questions.

Sincerely,

MARK STALNECKER,
Deputy Assistant Secretary,
(Federal Finance).

DEPARTMENT OF THE TREASURY,
Washington, D.C., May 4, 1982.

Hon. AUGUSTUS F. HAWKINS,
Chairman, Committee on House Administration, House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: I understand that the Committee has under consideration H.R. 6132, which would provide for the investment of funds of the Smithsonian Institution in public debt securities with maturities requested by the Smithsonian Institution and bearing interest at "rates determined by the Secretary of the Treasury, taking into consideration the current average market yield on outstanding marketable obligations of the United States of comparable maturities . . ." This language was developed by the Treasury Department for the Smithsonian Institution. It appears in scores of statutes governing Government borrowing, lending, and investing activities. I understand that consideration may be given to an amendment to the above quoted language which would provide for investment at "rates determined by the Secretary of the Treasury based on current market yields on outstanding marketable obligations of the United States of comparable maturities . . ."

There is no substantive difference in meaning between the language in the bill as introduced and the language of the proposed amendment. In either case, the Department would follow the same investment procedures. In either case, the Smithsonian Institution would be assured of receiving a current market rate of interest on its investments. Accordingly, while we would prefer the language in the bill as introduced, we would have no objection to the proposed amendment.

Sincerely,

MARK STALNECKER,
Deputy Assistant Secretary,
(Federal Finance).

BRIEF DESCRIPTION OF THE MARKET-BASED SPECIAL INVESTMENT PROCEDURE OF THE DEPARTMENT OF THE TREASURY

(Prepared and Provided By the Department of the Treasury, May 4, 1982

Under the bill, the Smithsonian Institution could make use of the Treasury's market-based special obligation investment procedure. The market-based special obligation is a special non-marketable Treasury issue which is identical (except for transferability) to any marketable Treasury issue. The special security is issued at the mean of the New York Federal Reserve Bank's composite of quoted bid and ask prices, at noon on the day the account pays for the security. Thus, the investing fund is assured of obtaining a market interest rate on its investment without actually entering the market. At present, over 80 percent of the Government accounts for which Treasury provides investment services are invested in market-based special obligations.

CHANGES IN EXISTING LAW

In accordance with paragraph 12 of rule XXVI of the Standing Rules of the Senate, changes in existing law made by the bill H.R. 6132, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, and new matter is printed in italic):

SECTION 5590 OF THE REVISED STATUTES

(20 U.S.C. 54)

[SEC. 5590. So much of the property of James Smithson as has been received in money, and paid into the Treasury of the United States, being the sum of five hundred and forty-one thousand three hundred and seventy-nine dollars and sixty-three cents, shall be lent to the United States Treasury, at six per centum per annum interest; and six per centum interest on the trust-fund and residuary legacy received into the United States Treasury, payable in half-yearly payments, on the first of January and July in each year, is hereby appropriated for the perpetual maintenance and support of the Smithsonian Institution; and all expenditures and appropriations to be made, from time to time, to the purposes of the institution shall be exclusively from the accruing interest, and not from the principal of the fund. All the moneys and stocks which have been, or may hereafter be, received into the Treasury of the United States, on account of the fund bequeathed by James Smithson, are hereby pledged to refund to the Treasury of the United States the sums hereby appropriated.]

SEC. 5590. So much of the property of James Smithson as has been received in money, and paid into the Treasury of the United States, being the sum of $541,379.63, shall be lent to the United States Treasury and invested in public debt securities with maturities requested by the Smithsonian Institution bearing interest at rates determined by the Secretary of the Treasury, based upon current market yields on outstanding marketable obligations of the United States of comparable maturities, and this interest is hereby appropriated for the perpetual maintenance and support of the Smithsonian Institution; and all expenditures and appropriations to be made, from time to time, to the purposes of the Institution shall be exclusively from the accruing interest, and not from the principal of the fund. All the moneys and stocks which have been, or may hereafter be, received into the Treasury of the United States, on account of the fund bequeathed by James Smithson, are hereby pledged to refund to the Treasury of the United States the sums hereby appropriated.

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